CHAPTER NINE

MANAGING BRANDS

Any fool can put on a deal, but it takes genius, faith, and perseverance to create a brand.

—David Ogilvy, founder of Ogilvy & Mather advertising agency

Brands benefit customers by creating value that goes beyond the product and service characteristics of the offering. Because of their fundamental role in creating market value, brands are among the most valuable strategic assets of a company. The key aspects of creating and managing brands are the focus of this chapter.

Overview

The increased commoditization in many categories has shifted the focus of differentiation from products and services to brands. Brands help differentiate the offering in two main ways: by creating a unique brand identity and by associating the brand with a meaning that resonates with its potential buyers.

- **Brand identity** includes the identifying characteristics of the brand, such as brand name, logo, symbol, character, slogan, jingle, product design, and packaging. Brand identity elements should be unique, memorable, likeable, and consistent with the other brand elements and with the meaning of the brand. Brand elements should also be flexible to adapt to changes in the market environment (to accommodate shifts in consumer preferences) and the company's product-line strategy (to be extendable to other product categories). Furthermore, the company should be able to protect the uniqueness of its brand elements against infringement by competitors.
- **Brand meaning** reflects the brand-related perceptions and beliefs held by the buyers; it reflects buyers' understanding of the value proposition associated with a particular brand. The meaning of the brand has a tripartite impact on customers' perceptions of value. First, it can signal the quality of the products and services associated with the brand. For example, brands such as Tide, Tylenol, and Michelin are commonly associated with quality products. Second, brands can signal the price image of the offering, indicating the monetary savings that are likely to be associated with the brand. For example, Walmart, Costco, and Aldi brands are often associated with low prices.

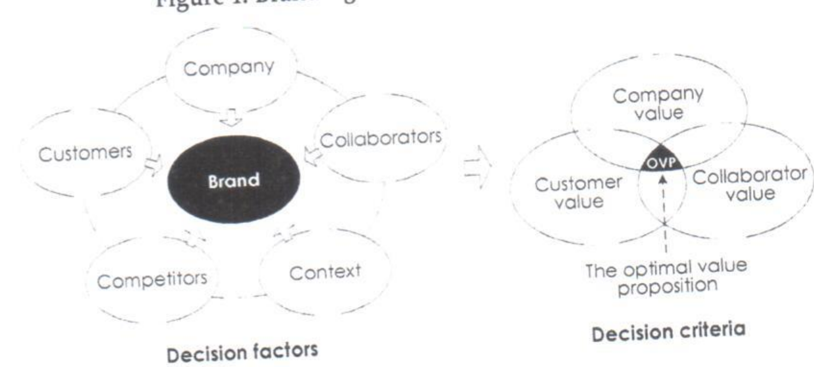
Finally, brands can create additional emotional (satisfaction from using and owning the brand), social (group acceptance resulting from ownership of a particular brand), and self-expressive benefits (use of the brand as a means to express one's identity). For example, Rolls-Royce, Louis Vuitton, and Tiffany's signify social status, and Harley-Davidson, Oakley, and Abercrombie & Fitch are associated with unique self-expressive values.

The primary function of brand identity is to identify the company's offering and differentiate it from the competition by creating value that goes beyond the product and service characteristics of the offering. To illustrate, the identity of BMW is captured by elements such as its distinct name and logo, whereas its meaning—*the ultimate driving machine*—reflects the mental associations that target customers make with the brand. A brand's identity can exist independently from its target customers; in contrast, a brand's meaning exists primarily in the minds of the buyers.

Branding as a Value-Creation Process

Brands aim to create value that goes beyond the functional benefits of the offering. To achieve this goal, a manager must consider five key factors—target customers, the company, its collaborators, competitors, and the context in which the company operates—and develop a brand that creates market value. The Five Cs are the key decision factors that must be considered in order to design brands that can create value for target customers, the company, and its collaborators (Figure 1).

Figure 1. Branding as a Value-Creation Process



The Five Cs—customers, company, collaborators, competitors, and context—define the strategy involved in building strong brands. Because creating value for its target customers is a primary function of any brand, customer needs are the cornerstone for building successful brands. An offering's brand is also influenced by the company's resources, such that a company with an established reputation and expertise in a particular domain can use this reputation to build its brand. An offering's brand can be influenced by its collaborators, frequently leading to the development of cobranding strategies (e.g., Microsoft and Intel, Coca-Cola and Splenda, and Citibank and MasterCard). An offering's brand is also a function of the competition because it affects the brand's ability to create unique and shared associations (often referred to as points of difference and points of parity). Finally, an offering's branding is influenced by the various economic, business, technological, sociocultural, regulatory, and physical aspects of the environment in which it operates. For example, because they have become synonymous with a particular category and are commonly used as a generic term, Aspirin, Thermos, and Escalator have lost their legal trademark-protected brand status.

In addition to being influenced by the Five Cs, branding decisions are also a function of the other aspects of the marketing mix, including product and service characteristics, price, incentives, communication, and distribution. Thus, the more commoditized a company's product or service is and the less observable its benefits are, the greater the importance of brands in differentiating the offering. An offering's brand must also be consistent with its price and incentives: low prices and frequent discounts can hurt the image of an upscale brand, just as high prices can hurt the image of a value brand. In the same vein, brand-focused communications tend to strengthen the brand, whereas price- and incentive-focused communications typically have the opposite effect, eroding the brand image.[1] Finally, an offering's brand is a function of its distribution channels, which often serve as a means for brand building (e.g., Disney World theme parks and Apple and Niketown retail stores function as channels delivering Disney, Apple, and Nike brands).

Brand Hierarchy

An important branding decision involves determining whether different offerings in a company's product line should be positioned as individual brands or should share the same brand name. In this context, brand hierarchy (or brand architecture) reflects the relationship among different brands in a company's portfolio. There are two core approaches to managing multiple brands: individual branding and umbrella branding.

- **Individual branding** involves creating a separate brand for each product or product line. To illustrate, Tide, Cheer, Bold, and Era are individual brands of laundry detergents created by Procter & Gamble. Chevrolet, Buick, Cadillac, and GMC are individual brands of General Motors. Campbell Soup Company uses Campbell's for soups, Pepperidge Farm for baked goods, and V8 for juices. Sears uses Kenmore for appliances, Craftsman for tools, and DieHard for batteries. Diageo manages dozens of alcoholic beverage brands including Smirnoff, Ketel One, Tanqueray, Johnnie Walker, J&B, José Cuervo, Captain Morgan, Baileys, Hennessy, Guinness, Dom Pérignon, and Moët & Chandon.
- **Umbrella branding** involves using a single brand for all of a company's products. For example, General Electric, Heinz, Virgin, and Costco (Kirkland Signature) use a single brand for nearly all of their products. Umbrella brand-

ing often involves sub-branding, in which the umbrella brand is combined with a lower tier brand. For instance, Courtyard by Marriott, Residence Inn by Marriott, Fairfield Inn by Marriott, and SpringHill Suites by Marriott exemplify using sub-brands in the context of umbrella branding. Similarly, Porsche uses sub-branding for the different offerings in its product line: Carrera, Boxster, Cayenne, and Cayman. A more subtle form of sub-branding involves using brand names with the same origin: Nescafé, Nesquik, Nestea, and Nespresso are used by Nestlé to brand different beverages.

Companies with multiple product lines might also employ hybrid branding that involves a variety of individual, umbrella-branding, and sub-branding strategies. To illustrate, Chevrolet and Cadillac are individual brands of General Motors; at the same time, each one serves as an umbrella brand for its sub-brands (Camaro, Impala, Corvette, Malibu, Monte Carlo, and Blazer are Chevrolet sub-brands, and CTS, STS, XLR, and Escalade are Cadillac sub-brands).

A key advantage of an individual-brand strategy is that it enables a company to serve diverse customer segments in diverse product categories without diluting the image of its brands. Individual brands also tend to have greater brand equity because they are independent from the parent brand and can be the subject of acquisitions. On the downside, building new brands without the support of an existing brand takes a substantial amount of time, money, and managerial resources.

A key advantage of umbrella branding is that it leverages the equity of an existing brand, benefiting from the instant recognition of the core brand while avoiding the costs associated with building a new brand. Using umbrella branding in product-line extensions can strengthen the parent brand by raising its image, especially in the case of adding a high-end offering. Umbrella branding can also strengthen the existing brand by increasing its visibility to target customers. A drawback to using umbrella branding is that poor performance by any product carrying the brand name can easily hurt the reputation of the parent brand. For example, in 1986 General Motors introduced a Chevrolet-based compact car branded as Cadillac Cimarron and, by doing so, weakened the image of its upscale Cadillac brand.

Brand Dynamics

Once created, brands evolve throughout time. There are two common types of brand changes: *brand repositioning,* which involves changes to the identity and meaning of a company's brand, and *brand extensions,* which involve broadening the set of underlying offerings to which the brand is applied. These two types of brand dynamics are discussed in the following sections.

Brand Repositioning

Brand repositioning involves changing an essential aspect of the brand, most often to increase its relevance to target customers. Common reasons to reposition a brand lude: (1) to respond to a change in target customers, (2) to reach a new target ırket, (3) to counteract a change in a competitor's branding strategy, and (4) to ·pond to legal challenges. These reasons are illustrated in more detail below.

- **React to the changing needs of target customers.** One of the most common reasons for repositioning a brand is to ensure that it remains relevant to the changing needs of its target customers. For example, to reflect the changing values and lifestyles of women, General Mills has consistently refined the image of Betty Crocker, a fictitious character designed to offer cooking advice to consumers. Throughout the years, she has had nearly a dozen different "looks," morphing from the stern, gray-haired, older woman in 1936 to today's olive-skinned, dark-haired Betty. Similarly, to increase its appeal to younger customers, Procter & Gamble repositioned its half-century-old beauty brand, Oil of Olay. The key changes introduced in 2000 included abbreviating the name to Olay (to avoid associations equating oil to "greasy"), streamlining its logo, replacing the woman's image (which resembled a nun) on the label with a younger one, and cleaning up the packaging design.

- **Reach a new target market.** Companies often reposition their brands when entering new markets to allow the brand image to reflect the specifics of that market and better resonate with the needs and values of target customers. For example, Philip Morris' Marlboro brand was originally introduced in 1924 as a women's cigarette, tagged "Mild as May"; in 1954 it was repositioned using the rugged cowboy image of the Marlboro Man, which was more likely to appeal to male smokers. Procter & Gamble's cleaning product Mr. Clean was introduced as Mr. Proper in Germany, Flash in the United Kingdom, Monsieur Propre in France, Mastro Lindo in Italy, Don Limpio in Spain (from *limpiar*—"to clean"), and Maestro Limpio in Mexico.

- **React to a change in a competitor's positioning.** Because companies strive to create superior customer value relative to that of other offerings in the marketplace, a change in the positioning of a competitor's offering often induces the company to reposition its brand to preserve and enhance its competitive advantage. To illustrate, the popularity of the Energizer Bunny in the United States forced Duracell to discontinue the use of its brand mascot—the Duracell Bunny—that is now used only outside of North America.

- **Respond to legal challenges.** In 1991 Kentucky Fried Chicken abbreviated its name to KFC to avoid paying license fees to the state of Kentucky, which trademarked the name in 1990. A decade and a half later, after reaching an agreement with the State of Kentucky in 2006, KFC began to reintroduce its original name, rebranding itself once again as Kentucky Fried Chicken.

Brand Extensions

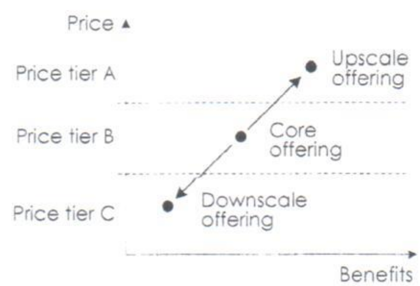
Brand extension refers to the strategy of using the same brand name in a different context, such as a different product category or a different price tier. For example, Starbucks, which has become synonymous with coffee, extended its brand to include ice cream sold in grocery stores. Montblanc—which over a century built a reputation for producing the finest quality pens—extended its brand to include items such as luxury watches, sunglasses, cufflinks, wallets, briefcases, and even fragrances. In the same vein, Oakley extended its brand from eyewear to unrelated domains, such as apparel, footwear, bags, and watches.

The primary reason for extending an existing brand is to leverage its equity by applying it to a new offering. The popularity of brand extensions stems from the fact that building new brands is a costly and time-consuming task. As a result, when entering a new product category, companies often choose to leverage the equity of their existing brands rather than invest in creating new ones. Based on their relationship with the core offering, brand extensions can be vertical or horizontal.

Vertical Brand Extensions

Vertical brand extensions stretch the brand to a product or service in a different price tier. Depending on the direction in which the original offering is being extended, two types of vertical brand extensions can be distinguished: upscale extensions in which the brand is applied to an offering in a higher price tier, and downscale extensions, in which the brand is applied to an offering in a lower price tier (Figure 2).

Figure 2. Vertical Brand Extensions



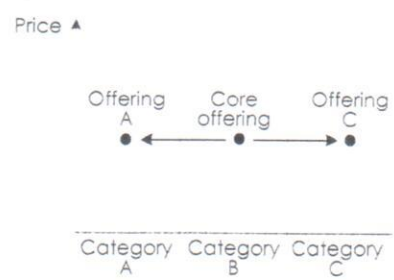
Examples of *upscale brand extensions* include Gallo's entry into the premium wine segment with Gallo Family Vineyards Estate Series, Volkswagen's attempt to enter the luxury car market with the Volkswagen Phaeton in 2004, and Levi Strauss' attempt to enter the designer suit category in the 1980s. Because the image of the core brand generally hurts rather than helps the upscale extension, upscale brand extensions are not very common and companies often choose to launch a separate brand rather than extend an existing one. To illustrate, consider the decisions of Toyota and Volkswagen to enter the luxury car market. Both companies decided to extend their product line to upscale offerings but chose different branding strategies. Believing that its existing brand name could not convey the luxury image required to successfully compete with the Mercedes S-class and BMW 7-series, Toyota launched a new brand—Lexus—rather than try to extend its existing brand. In contrast, Volkswagen launched its upscale extension branded as Volkswagen Phaeton, prominently featuring the VW logo on the front and the back of the car. The aftermath is that Toyota succeeded in establishing Lexus as a premiere luxury brand, whereas Volkswagen failed to convince potential buyers that it could be a luxury brand.

Examples of *downscale brand extensions* include the Mercedes A-series, Porsche's Boxster, and Armani Exchange. Because they leverage the image of the core brand, downscale extensions tend to be more successful than upscale ones. The key shortcoming for downscale brand extensions is the potential dilution of the brand's image. To illustrate, the brand image of Lotus Cars (English manufacturer of sport cars) was negatively influenced by the introduction of Lotus Elise—a downscale extension featuring a Toyota-sourced engine that has been used in several Toyota models, including Celica and Corolla.

Horizontal Brand Extensions

Horizontal brand extensions involve applying the brand to a different product category, typically within the same price tier (Figure 3). For example, Ralph Lauren successfully extended its Polo brand from clothing to home furnishings such as bedding and towels, Timberland extended its brand from boots to outerwear and travel gear, and Porsche extended its brand from sport cars to sedans and sport utility vehicles.

Figure 3. Horizontal Brand Extensions



A potential downside of horizontal brand extensions is brand dilution, which is likely to occur when a brand is extended to diverse product categories that are inconsistent with its essence. For example, Heinz All-Natural Cleaning Vinegar—the company's first nonfood product launched in 2003—failed, in part, because consumers were confused by the Heinz-branded vinegar-based cleaning aid. In the same vein, Costco's strategy to use a single brand—Kirkland Signature—for all of its store-branded products, from food and wine to cleaning supplies, appliances, and clothes, curbs its ability to attach a specific meaning to its brand.

Brand Equity

The term brand equity refers to the financial value of the brand; it determines the premium that should be placed on a company's valuation because of brand ownership. The key aspects of conceptualizing and measuring brand equity are discussed in the following sections.

Brand Equity and Brand Power

A key driver of brand equity is the brand's power. Brand power reflects the brand's ability to differentiate the offering from the competition and create customer value through meaningful associations. Unlike brand equity, which reflects the value of the brand to the company, brand power reflects the value a brand creates in the minds of customers.

Brand equity is a function of brand power as well as the company's utilization of the power of its brand, reflected in its user base, sales volume, and pricing. A stronger brand does not automatically translate into greater brand equity. For example, although the Armani, Moët & Chandon, Audi, and Lexus brands are considered stronger than the Gap, McDonald's, Volkswagen, and Toyota brands, respectively (as measured by the greater price premium they command over identical unbranded products), the equity of the latter set of brands is estimated to be higher than that of the former: For example, the brand equity of Toyota is estimated to be higher than the brand equity of Lexus, even though Lexus commands a greater price premium compared to Toyota.[2]

Brand power can be defined as the differential impact of brand knowledge on consumer response to an offering's marketing efforts.[3] This means that a brand has greater power when customers react more favorably to an offering because they are aware of the brand name. To illustrate, one of the benefits of brand power is the price premium customers are willing to pay for the branded product compared to the identical unbranded product. In addition to the price premium, other dimensions of brand power include greater customer loyalty; enhanced perception of product performance; greater licensing, merchandising, and brand extension opportunities; less vulnerability to service inconsistencies and marketing crises; more elastic response to price decreases and more inelastic response to price increases; greater communication effectiveness; and increased channel power. Because powerful brands can influence all aspects of an offering, building strong brands is of crucial importance to sustainable growth.

Measuring Brand Equity

Knowing the monetary value of a company's brands is essential for company valuation, such as in the case of mergers and acquisitions, sale of assets, licensing, financing, and estimating benefits from or damages to the brand. Despite the importance of brand equity, there is no commonly agreed-on methodology for its calculation; instead, there are several alternative methods, each placing emphasis

SUMMARY

A brand is a marketing tool created for the purpose of differentiating a company's offering from the competition and creating value for customers, the company, and its collaborators. A brand has two key aspects: (1) brand identity, which includes identifying characteristics, such as name, sign, symbol, character, and design, and (2) brand meaning, which reflects a set of offering-related associations in the mind of the buyer. Brand identity aims to *identify* the company's offering and *differentiate* it from the competition. In contrast, brand meaning aims to *create value* (for customers, the company, and its collaborators) that goes beyond the product and service characteristics of the offering.

Managing brands involves two types of decisions: (1) *strategic decisions*, which are a function of the offering's target market, defined by its customers, company, collaborators, competition, and context, and (2) *tactical decisions*, which are a function of the other marketing mix variables: product, service, price, incentives, communication, and distribution.

Two important branding decisions involve managing the brand hierarchy and managing the brand dynamics. *Brand hierarchy* reflects the relationships among different brands in a company's portfolio. The two popular approaches to managing multiple brands are individual branding and umbrella branding. Brand dynamics reflect the evolution of the brand over time. The two common types of brand dynamics are *brand repositioning*—which involves changes to an existing brand, most often to make the brand more relevant to its target customers—and *brand extension*—which involves broadening the set of underlying product categories to which the brand is applied without necessarily changing the core brand.

Brand equity is the net present value of the financial benefits derived from the brand. Brand equity is a function of brand power, as well as a number of additional factors reflecting the company's utilization of the strength of its brand. *Brand power* reflects the brand's ability to differentiate the offering from the competition and create customer value through meaningful associations. Unlike brand equity, which reflects the value of the brand to the company, brand power reflects the value the brand creates for customers. The three most popular approaches to measuring brand equity are cost-based (the cost of recreating the brand), market-based (the difference in the cost-adjusted cash flows of a branded and nonbranded product), and financial (the net present value of the cash flows of the offering's future earnings that are attributed to the brand). Using alternative valuation methods that employ different assumptions can greatly improve the accuracy and consistency of the resulting brand equity estimates.

RELEVANT CONCEPTS

Brand Audit: A comprehensive analysis of a brand, most often to determine the sources of brand equity.

Brand Essence: The fundamental nature of the brand, also referred to as "brand promise." Brand essence distills the meaning of the brand into one key aspect—the positioning of the brand. One way to think about brand essence is to think of the "ness" of the brand, such as "BMW-ness," "Apple-ness," and "Microsoft-ness."

Branded House: Term used in reference to the branding strategy in which a company's brand is used on all of the offerings in its brand portfolio. Companies using this strategy include General Electric, Ford, Heinz, and Virgin. See also *house of brands*.

Cobranding: Branding strategy that involves combining two or more brands, typically from different product categories. Examples of cobranding include United Airlines–JPMorgan Chase–Visa credit cards, Lexus "Coach edition" sport utility vehicles, and HP–iPod MP3 players. A form of cobranding involves ingredient branding in which an ingredient or component of a product has its own brand identity, such as Teflon surface protector, Gore-Tex fabrics, NutraSweet and Splenda sweeteners, and Intel microprocessors.

Copyright: A legal term describing rights given to creators for their literary and artistic works. The types of works covered by copyright include literary works such as novels, poems, plays, reference works, newspapers, and computer programs; databases; films, musical compositions, and choreography; artistic works, such as paintings, drawings, photographs, and sculpture; architecture; and advertisements, maps, and technical drawings.

Fighting Brand: A downscale (lower priced) brand introduced to shield a major brand from low-priced competitors.

Generification: Colloquialized use of brand names (e.g., in reference to the products they are associated with). The use of a brand name as a generic term can lead to the loss of a company's right to the exclusive use of that brand name. To illustrate, Trampoline, Brazier, Escalator, Thermos, Yo-Yo, and Aspirin lost their trademark-protected status because of popular use; Xerox, Rollerblade, Velcro, and Google are considered to be at risk of following them.

Global Brand: A brand with a comprehensive international distribution system, such as Coca-Cola, Pepsi, and Sony.

Goodwill: Accounting term referring to a company's intangible assets, including the monetary value of the company's brand(s). Goodwill is recorded on a company's books when it acquires another company and pays a premium over the listed book value of its assets.

House of Brands: Term used in reference to a branding strategy in which a company holds a portfolio of individual and typically unrelated brands. Companies using this strategy include Procter & Gamble, Unilever, and Diageo. See also *branded house*.

Industrial Property: A type of intellectual property that involves (1) *inventions* (patents), (2) *industrial designs*, and (3) *identity marks* such as trademarks, service marks, commercial names, and designations, including indications of source and appellations of origin. An invention is a product or process that provides a new way of doing something or offers new solutions to technical problems; a patent is an exclusive right granted for an invention. An industrial design is the aesthetic aspect of a product and might consist of three-dimensional features such as shape or surface, or two-dimensional features such as patterns, lines, or color. Industrial design is primarily of an aesthetic nature and does not protect any technical aspects of the product to which it is applied. Identity marks such as trademarks, service marks, commercial names, and designations are designed to identify an offering or a company and protect it from the competition. A trademark (or service mark in the case of services) is a distinctive sign that identifies certain goods or services as those produced or provided by a specific entity. A geographical indication is a sign used on goods that have a specific geographical origin and possess qualities or a reputation that stem from the place of origin. Geographical indications can be used for a wide variety of agricultural products, such as "Tuscany" for olive oil produced in the Tuscany region of Italy, or "Roquefort" for cheese produced in the Roquefort area of France.

Intellectual Property: The legal entitlement attached to the expressed form of an idea, or to some other intangible subject matter. Intellectual property is divided into two categories: (1) *industrial property*, which encompasses inventions, industrial designs, and identity marks such as trademarks, service marks, commercial names, and designations, including indications of source and appellations of origin, and (2) *copyright*, which includes literary and artistic works, such as novels, poems and plays, films, musical works; artistic works, such as drawings, paintings, photographs and sculptures; and architectural designs.

National Brand: A brand available nationwide.

Private Label: Branding strategy in which an offering is branded by the retailer (Kirkland Signature, Costco's private brand; Kenmore, Sears' brand for home appliances; White Cloud, Walmart's private label for laundry detergents). Private labels (also referred to as store brands) are often contrasted with national brands, which are branded by the manufacturer or a third party rather than by the retailer (Coca-Cola, IBM, and Nike). Typically, private labels tend to be less expensive than national brands, although there are many exceptions, such as private labels offered by upscale retailers (Nordstrom, Marks & Spencer).

Regional Brand: A brand available only in a particular geographic region.

Store Brand: See *private label*.

ADDITIONAL READINGS

Aaker, David A. (1996), *Building Strong Brands*. New York, NY: Free Press.

Keller, Kevin Lane (2012), *Strategic Brand Management: Building, Measuring, and Managing Brand Equity* (4th ed.). Upper Saddle River, NJ: Prentice Hall.

Kumar, Nirmalya and Jan-Benedict E. M. Steenkamp (2007), *Private Label Strategy: How to Meet the Store Brand Challenge*. Boston, MA: Harvard Business School Press.

Tybout, Alice M. and Tim Calkins (2005), *Kellogg on Branding*. Hoboken, NJ: John Wiley & Sons.

NOTES

1 With the exception of companies such as Walmart, Home Depot, and Priceline.com, where low prices are directly related to the essence of the brand.

2 *Business Week* (2013), "The 100 Top Brands," October 1.

3 Keller, Kevin Lane (2012), *Strategic Brand Management: Building, Measuring, and Managing Brand Equity* (4th ed.). Upper Saddle River, NJ: Prentice Hall.